FDIC

Federal Deposit Insurance Corporation
Washington, D.C. 20434

Office of Inspector General

February 27, 1997

MEMORANDUM TO: Dennis F. Geer
Deputy to the Chairman

the last section of this report. The Corporation's response is included in its entirety as an Appendix to the report.

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INTRODUCTION

The Evaluations Branch completed a review of workload and staffing at the Southeast Service Center (SESC). This review was prompted by a July 15, 1996, letter sent to the Chairman by an anonymous employee who alleged that there was insufficient work for the staff at SESC's Division of Depositor and Asset Services (DAS). The anonymous employee alleged overstaffing at SESC's DAS, and cited his/her supervisor's excessive smoking breaks; extended lunch breaks; and inappropriate usage of the computer for game playing. The Deputy to the Chairman and Chief Operating Officer requested that we conduct this review based on concerns expressed by the Chairman regarding the anonymous allegation. The Deputy to the Chairman also requested that we review the staffing and workload of the SESC's Liquidation Branch.

We performed this review during a period of time when the Corporation was conducting its own in-depth analysis of projected future workload and staffing requirements for the period 1996 - 2000. As a result of that analysis, management announced a Corporation-wide reorganization and downsizing plan on October 29, 1996, which included several initiatives to address staffing surpluses in Division of Depositor and Asset Services (DAS) and the Legal Division. Among these initiatives were:

- Merging DAS and the Division of Resolutions into a new Division of Resolutions and Receiverships effective December 8, 1996, to handle more efficiently the reduced levels of resolutions and liquidation work projected over the next several years.

- Discontinuing DAS functions in Atlanta on August 29, 1997.

- Discontinuing Legal Division operations supporting DAS functions in Atlanta and other locations at the same time that DAS activities are discontinued at those locations.

- Transitioning most of the remaining assets and other workload from closed offices to FDIC's Dallas Office.

The objective of our review was to develop information that could help FDIC management determine whether the staffing levels in the SESC DAS and Legal Division were reasonable based on current and anticipated workloads and when compared to other service centers. To accomplish our objective, we reviewed the anonymous allegation letter and the correspondence prepared by the Regional Director of the SESC in response to the allegation. We also interviewed senior managers in the SESC to obtain their perspective on the allegation letter and the workload and staffing at the SESC. The scope of our review was limited to DAS staffing and workload at the service centers and the Legal Division's Liquidation Branch, which supports DAS functions. Other organizational elements co-located at the service centers were not included in this review.

During our site visits to the SESC, we collected, reviewed, and analyzed organization charts, activity reports, and contractor information. We also observed activities at the SESC in response to specific issues identified in the anonymous letter.

We interviewed Headquarters Division of Administration (DOA) staff members involved with FDIC's staffing analysis. They provided current staffing projections for the five service centers. We used this information and asset liquidation activity data provided by the Division of Finance to compare the workload and staffing of the SESC DAS to that of other service centers. We also computed ratios of Assets Managed Per Employee (AMPE) for the five service centers to determine whether there were significant differences in the workload and staffing ratios between the SESC DAS and the other service centers.

We obtained outside contractor information from the service centers to compare the SESC DAS' use of contractors to that of the other service centers. We also used this information to calculate
ratios of AMPE that factored the number of onsite contractor employees into the computations.

For our review of the SESC Liquidation Branch, we interviewed senior managers in the SESC Liquidation Branch and at Headquarters to obtain their views on factors relating to workload and staffing issues facing the Liquidation Branch. We collected detailed staffing lists as of August 1996 from DOA. We analyzed these lists for all Liquidation Branch offices to determine the SESC Liquidation Branch's size in relation to other service center Liquidation Branches. The DOA also provided us with preliminary staffing projections for the Legal Division to the year 2000.

We reviewed the Legal Division's detailed analyses of workload and staffing estimates that were prepared in response to the July 3, 1996, memorandum requesting an updated analysis of staffing. We also reviewed workload projections provided by the Southwest Service Center (SWSC) Liquidation Branch that included projections of workload for all of the service center Liquidation Branches through December 1997. Finally, we reviewed the Legal Division's use of contracted outside counsel to handle current and future FDIC legal matters.

We conducted this review between August 19, 1996, and October 11, 1996, in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

RESULTS IN BRIEF

The SESC Regional Director responded to the anonymous allegations in a letter to headquarters and identified inconsistencies with statements made in the allegation letter written to the Chairman. We did not identify any evidence to contradict the Regional

Director's response. Nothing came to our attention through our own observations to indicate the occurrence of the inappropriate activities cited in the allegation letter.

In comparing the workload and staffing of SESC DAS to the other DAS service centers, we found that there was a correlation between the SESC DAS staffing and workload relative to the other service centers. Specifically, the SESC DAS had the second lowest asset servicing and liquidation workload as well as the second lowest staffing level of the five service centers. However, we do have observations that may warrant management's attention. Most notably, we are recommending that management examine several issues involving the extent of contractor use by SESC DAS.

Our review of the SESC Liquidation Branch showed that it generally placed in the middle of the five service centers with regard to workload and legal matters per attorney. The SESC Liquidation Branch had 12 percent of the workload and 14 percent of the attorneys at the service centers. However, we determined that the SESC Liquidation Branch had 46 legal matters per attorney while the SWSC had 108 matters per attorney. Further, 46 percent of the SESC Liquidation Branch's legal workload remained assigned to outside counsel. Nationally, Liquidation Branches had assigned 51 percent of total matters to outside counsel. With these facts in mind, the Legal Division should continue to examine attorney workloads as downsizing initiatives are implemented and monitor the use of outside counsel as the legal caseload diminishes.

BACKGROUND

The SESC, located in Atlanta, is one of five FDIC service centers. The other service centers are the Northeast Service Center (NESC) located in Hartford; Midwest Service Center (MWSC) located in Chicago; SWSC located in Addison; and the Western Service Center (WSC) located in Irvine.

The SESC DAS was established in September 1993 and manages the liquidation of failed financial institutions in the Southeastern United States. Following the closing of a financial institution, the service center DAS identifies, controls and manages the institution's assets while liquidating the assets and processing claims against the institution in accordance with corporate policies and procedures.

The Legal Division maintains a staff at each of the five service centers. The portion of the Legal Division dedicated to DAS work, the Liquidation Branch, is the largest part of the Legal Division. The Legal Division established two stand-alone legal service offices (LSO) in New York and Los Angeles. In a May 21, 1996, electronic mail memorandum to all Legal Division attorneys, the General Counsel stated that Legal Division procedures require that whenever relevant outside legal services are required in a geographic area served by an LSO, the LSO should be consulted as to whether a referral to it is appropriate. The LSOs perform liquidation work. In addition to the service center liquidation branches and LSOs, the Legal Division at the Franklin Consolidated Office performs liquidation work and reports to the NESC. The New York LSO performs liquidation work and also reports to the NESC. The Los Angeles LSO performs liquidation work and reports to the WSC. Thus, our report includes Franklin and New York in the NESC statistics and Los Angeles in the WSC statistics.

ANALYSIS OF THE DIVISION OF DEPOSITOR AND ASSET SERVICES

Allegation of Employee Misconduct and Idle Time

The SESC Regional Director's response to the allegation cited inconsistencies with statements made in the allegation letter. Our visual observations of the SESC disclosed no evidence of the inappropriate activities reported in the allegation letter.

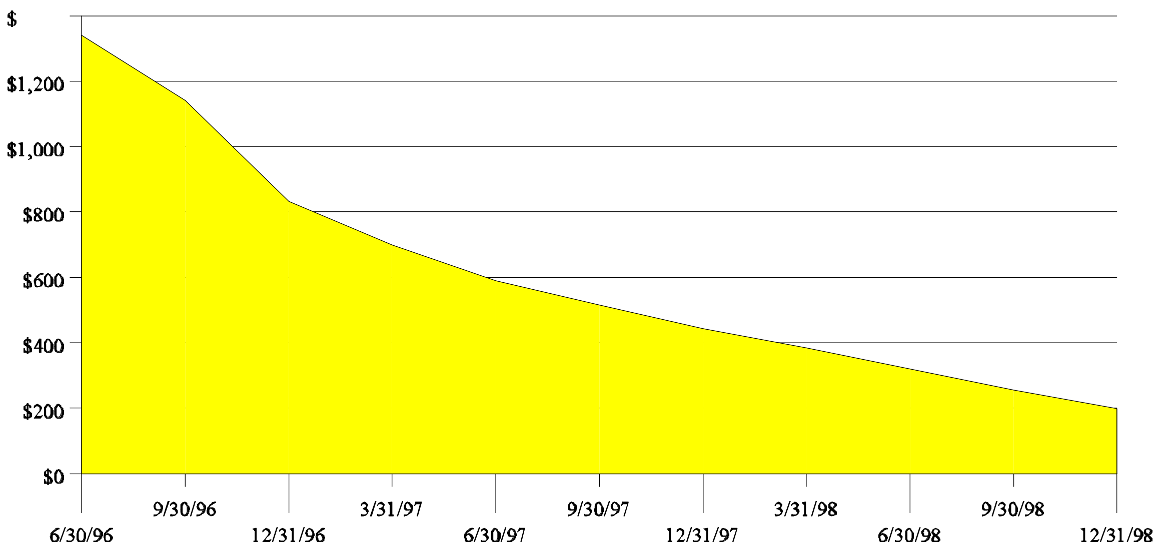
The SESC Regional Director responded to the anonymous allegation in a July 26, 1996, letter to the Director, DAS. The response pointed out inconsistencies with statements made in the allegation letter. The anonymous employee cited his/her supervisor's excessive smoking breaks and inappropriate usage of the computer for game playing. The SESC Regional Director's review of the allegations concluded that the grade-14 supervisors cited in the allegation are non-smokers, and the Division of Information Resources Management routine reviews of computer usage found no indication of games on any SESC computers, including SESC DAS computers. We found no evidence to contradict the SESC Regional Director's findings. We conducted visual observations of the work environment at the SESC and nothing came to our attention to indicate excessive smoking breaks, inappropriate usage of computers for personal games, or significant idle time being displayed by the employees.

Workload at the SESC DAS and Other Service Centers

SESC DAS workload projections showed a steady decline. There was a correlation between SESC DAS workload and staffing relative to the other service center DAS operations. SESC DAS had the second lowest asset servicing and liquidation workload and staffing level of the five service centers.

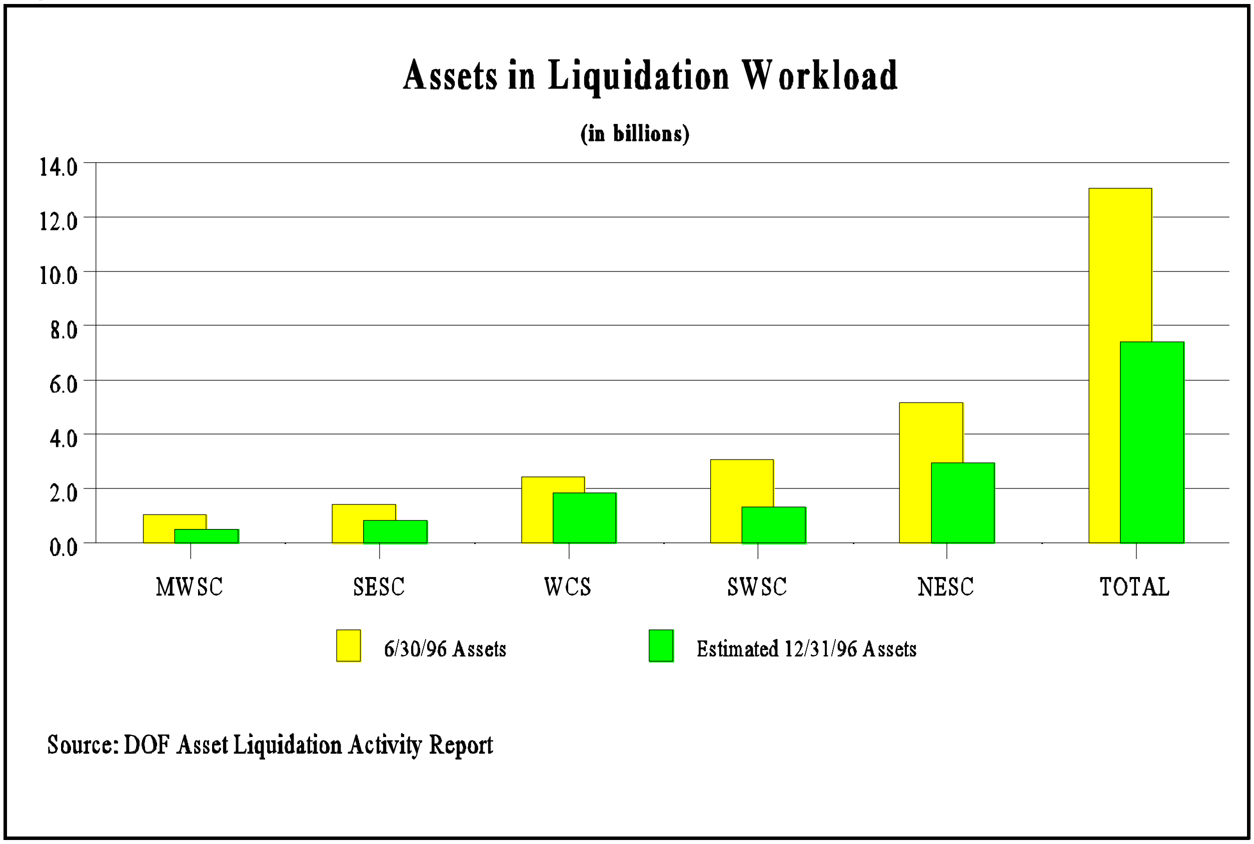
SESC DAS

Book Value of Assets in Millions



Comparative service center workload statistics indicated that the SESC DAS had the second lowest workload. As previously stated, at June 30, 1996, SESC DAS had asset servicing and liquidation responsibilities for slightly less than $1.4 billion in assets. The MWSC DAS had the smallest workload at slightly over $1.02 billion and the NESC DAS had the largest workload at slightly more than $5.15 billion. As of December 31, 1996, the SESC DAS is projected to have
$832 million in assets to service and liquidate. Figure 2 shows workload for the SESC DAS at the end of 1996 continues to be the second lowest of the five service centers.

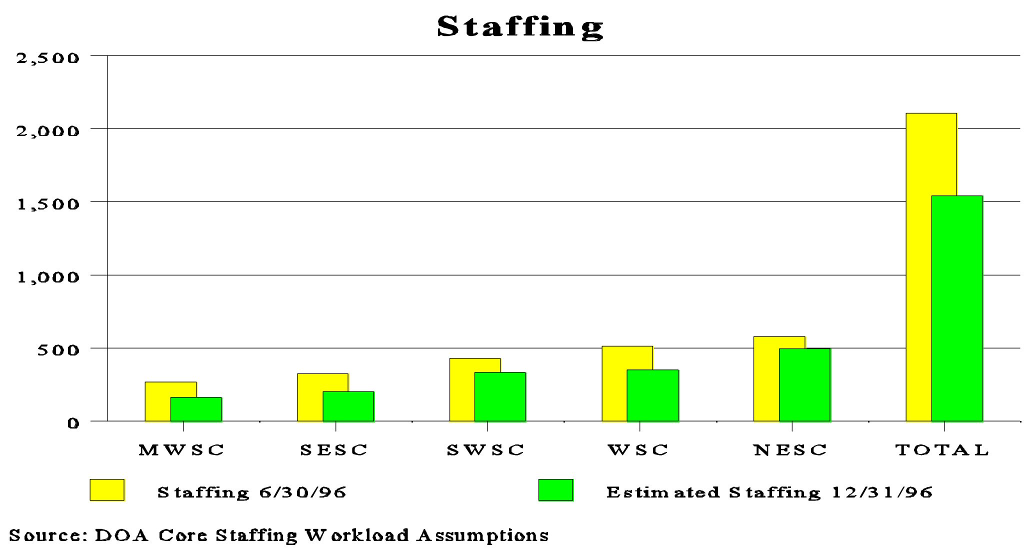
Figure 2: Comparison of SESC Assets with Other Service Centers



Staffing at the SESC DAS and Other Service Centers

The SESC DAS staffing level at June 30, 1996, was 323 employees, which was the second lowest of the five service centers. For the same time period, the MWSC DAS had the smallest staff at 267 employees while the NESC DAS had the largest staff at 580 employees. Figure 3 shows that the projected staffing of 202 employees for the SESC DAS at the end of 1996 will make this office the second smallest of the five service centers going into 1997.

Figure 3: Decrease During 1996 in Service Center Staffing



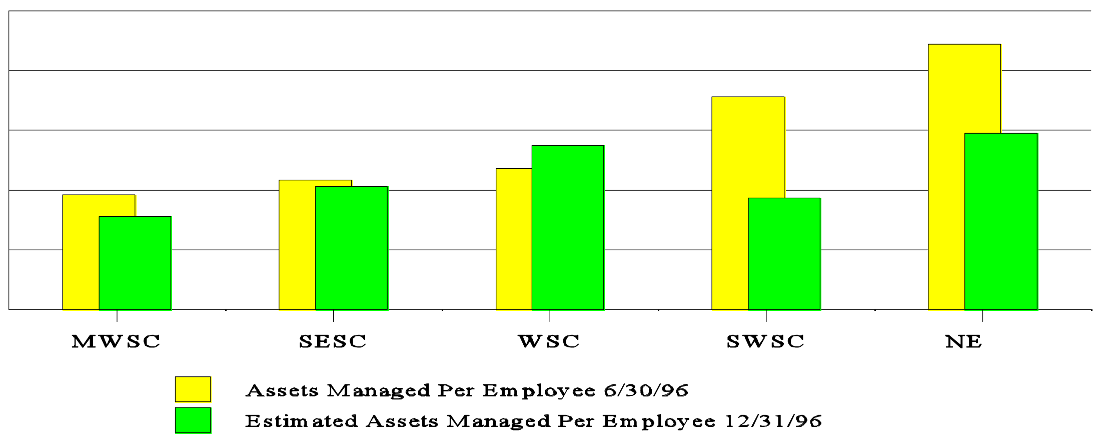
Assets Managed Per Service Center DAS Employee

SESC DAS had the second lowest Assets Managed Per Employee ratio.

As of June 30, 1996, the SESC DAS' workload consisted of slightly less than $1.4 billion assets to liquidate. SESC DAS officials stated that additional staffing decreases will accompany the workload declines described earlier, due to the loss of 50 and 19 term employees with Not-To-Exceed dates of May 31, 1997, and December 31, 1997, respectively. Staffing was projected to be 180 at December 31, 1997, before the reorganization and consolidation of the SESC function into the Dallas Office by August 29, 1997, was announced. SESC DAS officials also stated that their staffing levels would diminish because employees were being reassigned to Division of Finance, Division of Compliance and Consumer Affairs, the Division of Supervision, and the NESC.

AMPE Excluding Contractor Employees

(in millions)



AMPE Including Contractor Employees

(in millions)

Assets Managed Per Employee 6

SESC DAS' projected staffing of 249 employees. The 249 number of permanent and term employees projected for December 31, 1996, includes only those term employees with Not-To-Exceed dates in 1997. Thus, the SESC could have prospectively been substantially overstaffed by year-end 1996. This staffing surplus is being addressed through the Corporation-wide reorganization and downsizing plan outlined in the October 29, 1996, memorandum to all employees.

Loan Servicing Contracting

The SESC DAS had outside contractors handling some of its liquidation workload. For example, SESC DAS used three loan servicing contractors whose contracts will be extended into 1997. The five service centers had a total of 28 loan servicing contracts, most of which are being extended into 1997 and beyond. The scope of these contracts included 28,682 loans with a book value of $3.235 billion. Seventy-nine percent of these loans are performing. From January to September 1996, the Corporation sold just over 2,300 loans serviced by outside servicers. Accelerated sales of these loans could reduce the number of loan servicing contracts requiring extensions.

The SESC DAS had outside contractors handling some of its liquidation workload. For the most part, these outside contractors were involved with Resolution Trust Corporation (RTC) assets. For example, the SESC DAS had Standard Asset Management and Disposition Agreement (SAMDA) contracts which expire before the end of 1996 and will not be renewed. In addition, the SESC DAS utilized loan servicing contractors whose contracts will be extended into 1997 because, among other things, FDIC's subsidiary asset accounting systems will not be ready to accommodate RTC assets before 1997. Finally, the SESC DAS also had outside contractors assisting with loan servicing oversight and performing receivership assistance services. The SESC DAS was planning to extend these contracts into 1997.

According to information we obtained from the service centers in August and September 1996, the service centers had a total of 28 loan servicing contracts, the scope of which included 28,682 loans with a book value of $ 3.235 billion.[1] The MWSC and WSC DAS each had two such contracts, the SESC DAS had three such contracts, the NESC DAS had seven such contracts, and the SWSC DAS had 14 loan servicing contracts. The service centers planned to extend 14 of the 28 contracts into 1997. Eleven of the remaining 14 contracts had expiration dates of December 31, 1997, and beyond into 2004.

We received information from DAS in the form of Monthly Activity Reports related to types of loans--performing and non-performing--being handled by each of the service centers as of

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[1] Excludes 16,000 loans totaling $1.7 billion for which the Corporation only owns the servicing rights.

August 31, 1996. This information shows that 79 percent of the number of loans being serviced by outside servicers were performing loans. Performing loans accounted for 65 percent of the book value of the loans being serviced by outside loan servicers.

January 1996 sales of loan and other assets serviced by outside servicers consisted of four loans with a book value of $7.2 million. By the end of July 1996, loan sales for the year totaled 1,333 loans with a book value of $123.8 million. There were no sales of loans serviced by outside servicers in the month of August, although 982 loans and other assets were sold in September. We did not review the reasons for the rate of loan sales; however, in our opinion, accelerated sales of loans by outside loan servicers would diminish the volume of these assets and potentially reduce the number of loan servicing contracts requiring extensions.

Loan Servicing Oversight

All five service centers had outside loan servicing contracts. However, only the SESC and the NESC DAS contracted for oversight of their outside loan servicing contractors. Furthermore, the SESC DAS planned to extend this loan servicing oversight contract into 1997.

The SESC DAS supplements its in-house oversight staff of nine employees with 26 contractor employees who oversee the activities of the loan servicing contractors. The SESC DAS anticipates having 15 contractor employees at December 31, 1996, and 10 contractor employees at June 30, 1997, to continue overseeing its loan servicing contractors. Only one other service center, the NESC, reported using outside contractors to augment in-house oversight of loan servicing contractors. Specifically, the NESC DAS had four contractor employees who provide support services to the NESC DAS oversight managers overseeing the activities of three loan servicing contractors and two SAMDA contractors.

In addition to in-house and contracted oversight staff, the activities of the Corporation’s loan servicing contractors are overseen, reviewed, and monitored by other organizations such as the:

- National Loan Servicer Oversight Program;
- Contractor Oversight and Monitoring Branch;
- Office of Internal Review;
- Inspector General’s Office of Audit (performance audits); and
- Inspector General’s Office of Oversight and Quality Assurance (expiration reviews).

We did not gather information about the scope of these different oversight activities for loan servicing contractors. These loan servicers have been conducting this function under contract for several years and have been reviewed often. Thus, at first glance, there does appear to be an opportunity for management to re-evaluate the value added to the loan servicing function through this level of oversight.

Onsite Contractor Staff Not Considered in Core Staffing Estimates

The DAS projected staffing requirements for the service centers for the period 1996-2000. However, DAS did not include the 24 contractor employees who will be working onsite for the SESC DAS in its staffing projections for 1996 and 1997.

The use of contractors to perform corporate functions was not considered in DAS' core staffing projections for 1996 and 1997. As previously stated, DAS's core staffing for the SESC DAS at December 31, 1996, was 202 employees. This number did not include the 15 contractor
employees working onsite overseeing the three loan servicing contractors or nine contractor employees working on site in the "other asset servicing" area.

These contractor employees were working with FDIC employees to handle the workload presented in the SESC DAS core staffing projections. This was not additional workload. Thus, the exclusion of contractor employees from core staffing analysis may overstate the actual workload per FDIC employee that exists at the SESC DAS.

SESC DAS Acceleration of SAMDA Contract Expirations

The Corporation issued guidance encouraging the service centers to terminate SAMDA contracts by the end of 1996. The SESC DAS accelerated the expiration of its SAMDA contracts.

The SESC DAS accelerated the expiration of its SAMDA contracts by bringing the workload in-house. As of August 31, 1996, the SESC DAS had four active SAMDA contractors managing 649 assets with a combined book value of nearly $194 million. The SESC DAS scheduled these four SAMDA contractors for staggered terminations not later than December 14, 1996. These early contract expirations were in accordance with Headquarters guidance which encouraged the elimination of SAMDA contractors not later than December 31, 1996.

Other Asset Servicing Contracts

The joint FDIC/NTEU Contract Review Project, initiated by the Senior Executive Council, recommended terminating three of 75 DAS contracts for outside services and bringing the work in-house. The contract review team reviewed eight of the 18 DAS "other asset

servicing" contracts currently being considered for extension into 1997 and beyond. More cost efficiencies may be achieved if the contract review team studies the benefits of extending these "other asset servicing" contracts into 1997 and beyond versus bringing the work in-house.

In addition to Loan Servicing and SAMDA contractors, the service centers had 18 contracts for "other asset servicing" activities such as technical and administrative support services for asset management, loan servicing oversight, reconciliation of asset systems, subsidiary management, and receivership assistance. The service centers are planning to extend 14 of the 18 contracts into 1997. Furthermore, the WSC DAS was soliciting for a new contractor to replace one of its existing contractors prior to the January 31, 1997, expiration. WSC DAS expected the new agreement to initially expire in January 1998.

In 1995, the Corporation's Senior Executive Council established a joint FDIC-NTEU (National Treasury Employees Union) Contract Review Project to determine whether existing FDIC and incoming RTC contracts in four functional areas (asset servicing/management; information resources management; financial services; and administrative services) should continue or be cancelled. The review teams conducted a 7-month review of 171 contracts to determine whether it was more cost effective to continue contracting for certain services or to have FDIC staff perform the same work. Seventy-five of the 171 contracts reviewed were DAS contracts. The review team recommended terminating and performing in-house the work performed under three of the 75 DAS contracts included in their review.

The review team included eight of the 18 DAS "other asset servicing" contracts in their review. The following contracts in Table 1 were not included in the review team's study:

Table 1: Contracts Not Included in FDIC-NTEU Contract Review Project

Contract Number	Contractor
0719-92-0051-011-0171-005B	Financial Management Task Force
0713-94-0031	Han and Associates
0713-91-0292	RPC-Mitchell/Titus
0783-94-0216-001	Jaynes Reitmeier and Grijalva, JV
0760-93-0128-001	Cap Gemini
0760-93-0164	Han and Associates
96-90870 -Y-XX	Seasons/TCBA , Joint Venture
96-90919-C-XX	Thompson, Cobb, Bazilio and Associates
96-90479-C-XX	Martin Cohen and Company
96-90497-C-XX	Subsidiary Management and Accounting Services

Source: FDIC/NTEU Contract Review Project

These 10 contracts were still active at the time of our review and many of them extend into 1997. There was a total of $3.8 million funds available for these 10 contracts. For example, contract number 0760-93-0164 with Han and Associates had $789,090 available and the contract was due to expire on June 30, 1997.

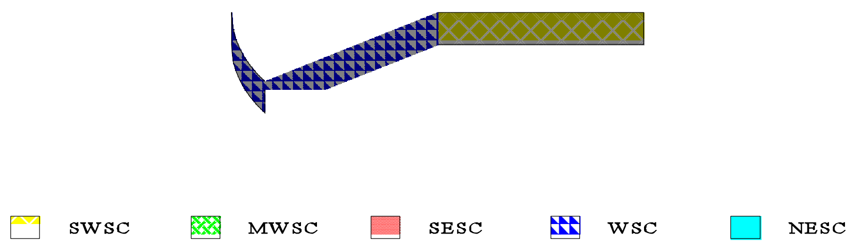
ANALYSIS OF SERVICE CENTER LIQUIDATION BRANCH

Service Center Liquidation Branch Workload

The SESC Liquidation Branch generally placed in the middle of the five service center liquidation branches with regard to workload and use of outside counsel. However, the

Legal Matters Assigned to Service Centers

7/96



Source: Legal Division Statistics

The SESC Liquidation Branch workload, which is a function of the DAS workload, is decreasing. The Regional Counsel, SESC, stated that there was one very large case within that workload (Southeast Bank) that involves FDIC Corporate and the Department of Justice. He stated that Southeast Bank was closed with a surplus of cash and the case involves significant policy issues relating to how FDIC dealt with this institution. He told us that this project was being worked in-house and, at times, a large part of the SESC Liquidation Branch was working on this project.

The Regional Counsel also told us that there was a staffing imbalance in the SESC which resulted in having too many managers and not enough support staff. He also stated that some of his section chiefs were specialized and they were not always performing in their areas of specialization. He attributed this situation to previous downsizing efforts, including the closing of the Orlando Office and the assimilation of the RTC Legal Division in Atlanta. He stated that when the Professional Liability Section (PLS) case work was transferred to Headquarters in January 1996, the staffs from both the FDIC and RTC PLS stayed in Atlanta. Finally, he stated that the fact that the Corporation is legally bound to retain all permanent employees, including the 48 permanent attorneys, until January 1, 1997, limited his ability to control staffing.

Service Center Liquidation Branch Workload and Staffing Projections

The Legal Division estimated its workload for the period 1996-2000 in accordance with the Corporation's request for core staffing and workload estimates. Using the Corporation's assumptions for future bank failures, the Legal Division developed detailed organization specific workload projections, including Liquidation Branch workload projections. A formula was used to translate the workload projections into staffing projections.

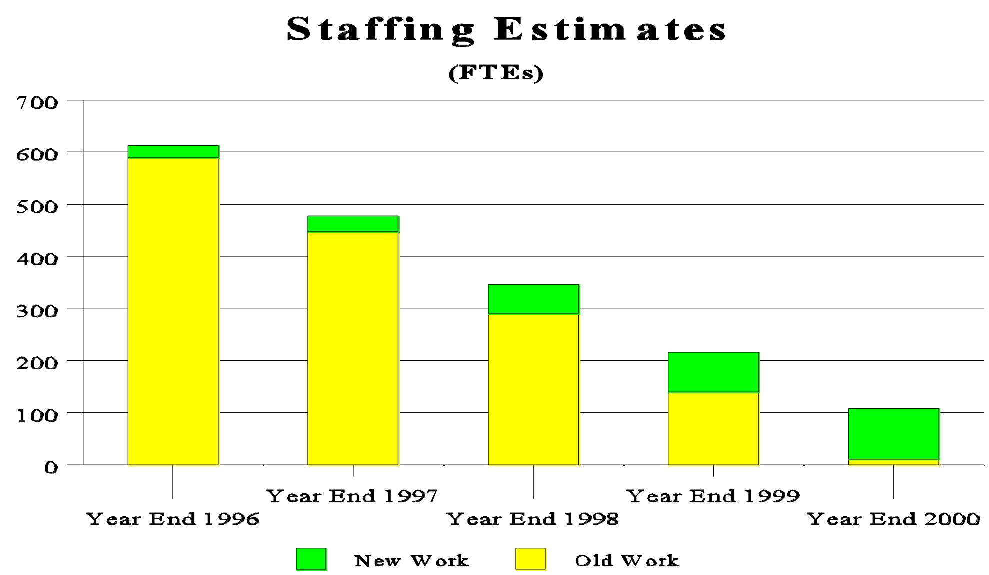
The Liquidation Branch workload projections included an analysis of the functions of the field offices of the Receivership and Regional Operations Section. The functions were divided into four major groups which track the liquidation of a receivership. Statutory insurance and receivership functions are generally not related to the number of bank failures or asset levels. "Receiver-related" functions are driven by bank failures and are generally performed not long after a bank is closed. "Incoming asset" and "remaining asset" functions are driven by the level and type of asset being liquidated. Incoming assets generally are disposed of within 180 days after a bank fails; remaining assets, including problem assets, usually take much longer to liquidate. Forty-six separate legal functions were identified by this process.

Other factors included as a part of the workload projections were: the estimated number of insolvencies or near insolvencies, the asset size of the institutions estimated to fail or nearly fail, and the related number of receiverships under FDIC control. To account for the unique characteristics of legal work arising from bank insolvencies and the changing flow of work over the life cycle of an institution failure, workload was aged over the 8-year life cycle of a typical bank failure.

The number of hours of attorney time needed to perform each of the identified functions was then determined based upon the size of the institution in liquidation. Institutions were placed in one of five different groups based on the estimated size of the receivership. A formula was used for determining staff levels that calculated the number of attorney Full-Time-Equalivents (FTE) positions for all liquidation functions for a particular size institution.

Field liquidation staff estimates were calculated for the existing workload and for projected new workload at year end 1996 through the year end 2000. The estimates included attorney FTEs and non-attorney FTEs which were based on a percentage of attorney FTEs. As Figure 7 shows, excluding supervisory and administrative support staff estimated at approximately 12 percent of total staff, year end 1996 FTEs were projected at 613 FTEs and year end 2000 FTEs were projected at 108 FTEs.

Figure 7: Liquidation Branch Staffing Estimates



Source: Legal Division Core Number Staffing Analysis

As a result of these workload and staffing projections, the October 29, 1996, Corporation-wide reorganization and downsizing plan stated that Legal Division operations supporting DAS functions in Chicago, Atlanta and Franklin would discontinue operations at the same time DAS functions are discontinued at those locations, April 25, 1997, August 29, 1997, and December 31, 1997, respectively. The announcement also stated that workload projections indicated that Legal Division operations in Irvine and Hartford would have to be consolidated into the Dallas office, in 1998 and 1999, respectively.

Legal Division Use of Outside Counsel

The Legal Division continuously uses a cost-benefit analysis to determine whether in-house attorneys or outside counsel should be used to conduct legal work. Further, the Legal Division has a long established goal of maximizing the use of in-house counsel. However, the Legal Division still has 51 percent of total legal matters assigned to outside counsel.

The Legal Division's extensive use of outside counsel was a function of the rapid increase in FDIC legal work resulting from the large number of failed institutions in the late 1980's. Likewise, during its existence, RTC had a similar increase in the amount of legal work resulting from savings and loan failures. Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, RTC was required to use contractors in carrying out its mission when use of contractors was practical and efficient. Not until the passage of the RTC Completion Act was RTC required to use in-house counsel if the staff could provide the same quality of work as outside counsel at the same or lower estimated cost. As a result, over 50 percent of the legal workload at FDIC and RTC was assigned to outside counsel.

The Regional Counsel, SESC, told us that the use of outside counsel was a management decision based on a cost-benefit analysis of whether it would be more expensive to have in-house counsel or outside counsel perform the legal work. However, the geographic location of the asset or venue of the court proceeding was a major consideration in the decision process. Also included in the decision process is in-house workload and staff expertise. For example, the SESC Legal Division is responsible for 12 states in the Southeastern United States. Most of the litigation work is not in Georgia, but in Florida and the Washington, D.C. area and would require in-house counsel to be in travel status for a significant amount of time if they performed the work. As a result, it may often be less expensive to use local outside counsel to resolve matters. For this reason, he stated that it will probably always be necessary to retain outside counsel in each state for FDIC work. Even so, he stated that as the work diminishes, the SESC will need significantly fewer law firms than they currently use.

The Legal Division has a long established goal of taking all reasonable efforts to maximize the use of in-house counsel. Historically, the Liquidation Branch tracked its use of outside counsel.
With the current planned Corporate downsizing resulting from declining workload, the Legal Division is continuing to focus on opportunities to diminish the use of outside counsel in favor of in-house attorneys. The large inventory of work resulting from the bank and savings and loan crisis that was assigned to outside counsel is slowly being resolved and projections show that the
work may be done by the year 2000. In addition, we were told that 80 percent of new legal matters were being assigned to in-house attorneys.

Further, the General Counsel issued a May 21, 1996, memorandum to all Legal Division attorneys reiterating management's commitment to utilizing in-house resources and minimizing the use of outside counsel. In the memorandum, the General Counsel noted the Legal Division's continuing support for a number of initiatives aimed at fulfilling that commitment. One initiative was the establishment of an intra-divisional task force to evaluate the utilization of in-house attorneys. The group is collecting and analyzing data to determine the most effective and efficient ways to utilize in-house resources. Goals and objectives for in-house counsel utilization will be reviewed as part of the group's efforts.

The Legal Division estimated that, as of August 31, 1996, it had spent $74.8 million on outside counsel during 1996. Projected outside counsel expenses for all of 1996 were $115 million. The SESC Liquidation Branch had 1,015 legal matters (46 percent of its inventory of legal matters) assigned to outside counsel. The SESC Liquidation Branch paid almost $8 million in legal fee bills during January through August 1996. All of the service centers combined paid a total of almost $43 million during that time period. As Table 3 shows, 51 percent of service center legal matters were assigned to outside counsel as of July 1996.

Table 3: Legal Matters Assigned to Outside Counsel -- July 1996

Liquidation Branch	Number of Legal Matters	Percent of Total Matters Assigned
MWSC	521	57
WSC	657	36
SESC	1,015	46
SWSC	3,368	60
NESC	3,460	48
TOTAL	9,021	51

Source: Legal Division Statistics

CONCLUSIONS AND RECOMMENDATIONS

Comparing the workload and staffing of the SESC DAS to the other service centers, we found there was a correlation between the SESC DAS staffing and the workload relative to the other service centers. However, we are recommending that management examine several issues involving the extent of contractor employees used by SESC DAS. Our review of the SESC Liquidation Branch showed that this Liquidation Branch generally placed in the middle of the five service center Liquidation Branches with regard to workload, size of staff, and use of outside counsel. The Legal Division should continue to examine attorney workloads at the service centers as downsizing initiatives are implemented and monitor the use of outside counsel as the legal caseload diminishes.

As the Corporation implements its reorganization and downsizing, we recommend that management examine, and be mindful of, the following issues.

- The SESC DAS had the greatest number of onsite contractor employees of the five service centers. Only the SESC DAS and one other field office supplemented their oversight of loan servicing contractors with contracted employees.

- The Corporation’s loan servicing contractors are monitored by in-house and contracted oversight staff and reviewed by numerous organizations. The value added to the loan servicing function through this extensive level of oversight is uncertain and may warrant evaluation.

- DAS did not include the number of contractor employees who will be working onsite for FDIC in its core staffing projections for 1996 and beyond.

- The five service centers will be using 25 loan servicing contracts into 1997 and beyond. Accelerated sales of loan assets serviced by outside loan servicers would diminish the volume of loans requiring outside servicing and potentially reduce the number of loan servicing contracts required in the future.

- All five service centers were planning to extend the majority of their other asset servicing contracts into 1997 and subsequent years. Most of these contracts were not included in the Headquarters Contract Review Project cost-comparison studies. Including these contracts in the review could generate cost savings for the Corporation.

- There was a wide variance in the average number of legal matters assigned to attorneys at the five service centers liquidation branches. For example, the NESC and the SWSC Liquidation Branches were responsible for 72 percent of the workload, but had just 50 percent of the attorneys at the service centers. This variance shows that staffing was not properly aligned with the location of the workload.

- The Legal Division has a long established goal of making reasonable efforts to maximize the use of in-house counsel and tracking its efforts in that regard. Nevertheless, 51 percent of service center legal matters remained assigned to outside counsel.

CORPORATION RESPONSE AND OIG EVALUATION

We received the Corporation’s written response to the draft report on February 19, 1997. The Corporation’s response reflected the comments of DRR, the Legal Division, and DOA. The response adequately addressed each of our issues and provided DRR’s, the Legal Division’s, and DOA’s perspectives on the issues we identified. A synopsis of the comments and our evaluation of those comments are provided below. The Corporation’s response is included in its entirety as an Appendix to the report.

Issue 1: The SESC DAS had the greatest number of onsite contractor employees of the five service centers. Only the SESC DAS and one other field office supplemented their oversight of loan servicing contractors with contracted employees.

Response: SESC DAS' use of contractors to supplement contract oversight activities resulted from the merger of RTC's Atlanta office into SESC DAS at the end of 1995 because RTC's Atlanta office relied heavily on onsite contractors to help oversee its loan servicing activities. FDIC and NTEU determined the continuation of using contractors for oversight assistance to be cost effective. SESC has reduced the number of onsite contractors and will continue this reduction as its asset base declines and the number of loan servicing contracts expire.

OIG Evaluation: The response adequately addressed this issue.

Issue 2: The Corporation's loan servicing contractors are monitored by in-house and contracted oversight staff and reviewed by numerous organizations. The value added to the loan servicing function through this extensive level of oversight is uncertain and may warrant evaluation.

Response: DRR has met with other FDIC offices to coordinate the oversight approach and eliminate duplicate efforts. DRR eliminated its separate Contractor Oversight and Management Branch and plans to significantly downsize its internal review staff. The focus of future internal reviews will shift from detailed contractor reviews to higher level evaluations.

OIG Evaluation: The response adequately addressed this issue.

Issue 3: DAS did not include the number of contractor employees who will be working onsite for FDIC in its core staffing projections for 1996 and beyond.

Response: DOA agreed that onsite contractor employees should be included in FDIC's core staffing analysis when these employees are dedicated to performing "in house" work. DOA plans to revise the 1997 core staffing instructions to provide for the inclusion of contractor employees in the staff count in situations where the onsite contractor is performing work that has been used as a basis for determining proposed FDIC staffing levels.

OIG

Evaluation: We concur with this response and DOA's plans to include contractor employees in FDIC's core staffing analysis when these employees are dedicated to performing "in house" work.

Issue 4: The five service centers will be using 25 loan servicing contracts into 1997 and beyond. Accelerated sales of loan assets serviced by outside loan servicers would diminish the volume of loans requiring outside servicing and potentially reduce the number of loan servicing contracts required in the future.

Response: SESC DAS reduced the number of its loan servicing contracts by 75 percent since the RTC/FDIC merger. The service centers will continue their efforts to eliminate servicers where it is efficient and cost effective to do so. However, performing real estate loans are most efficiently serviced by outside servicers because of the economies of scale and state of the art processing they provide. The use of outside servicers allows DRR personnel to focus their efforts on selling these assets, helps to preserve the value of the loan assets, and enhances FDIC's ability to sell the loans.

DRR will continue its attempts to sell performing loans expediently being mindful of its obligation to maximize the proceeds from these sales. In 1996, DRR reduced the book value of assets managed by outside servicers by 48 percent, and plans to have similar sales initiatives in 1997 and beyond. Approximately 13,000 performing loans serviced by outside servicers are included in a sales initiative expected to close during the first half of 1997.

OIG Evaluation: The response adequately addressed this issue.

Issue 5: All five service centers were planning to extend the majority of their other asset servicing contracts into 1997 and subsequent years. Most of these contracts were not included in the Headquarters Contract Review Project cost-comparison studies. Including these contracts in the review could generate cost savings for the Corporation.

Response: Most of the contracts identified in the report were not included in the review process because they did not meet the criteria established by the FDIC/NTEU Senior Executive Council. In most cases, these contracts were RTC contracts scheduled to expire by June 1996, but modified or extended after the review team's initial selection of contracts for review. The Senior Executive Council has agreed to evaluate additional contracts using revised screening criteria beginning in February 1997.

OIG

Evaluation: We concur with the response and the Senior Executive Council's plans to evaluate additional contracts.

Issue 6: There was a wide variance in the average number of legal matters assigned to attorneys at the five service centers liquidation branches. For example, the NESC and the SWSC Liquidation Branches were responsible for 72 percent of the workload, but had just 50 percent of the attorneys at the service centers. This variance shows that staffing was not properly aligned with the location of the workload.

Response: The Legal Division continues to examine workload and staffing as part of the Corporate-wide staffing refinement initiatives outlined in the October 29, 1996, memorandum to FDIC employees to ensure appropriate staffing levels in the entire Legal Division, including the remaining Service Centers.

OIG Evaluation: The response adequately addressed this issue.

Issue 7: The Legal Division has a long established goal of making reasonable efforts to maximize the use of in-house counsel and tracking its efforts in that regard. Nevertheless, 51 percent of service center legal matters remained assigned to outside counsel.

Response: The Legal Division has historically established and tracked goals for in-house counsel utilization. Current initiatives in this area include the establishment of an intra-divisional task force whose duties include collecting and analyzing data to determine the most effective and efficient ways to utilize in-house resources. Goals and objectives for in-house utilization will be reviewed as part of the task force's efforts.

OIG Evaluation: The response adequately addressed this issue.

 APPENDIX

CORPORATION COMMENTS

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